# Assumptions

## Significant forecasting assumptions and risks

Schedule 10, section 17, of the Local Government Act 2002 (the Act) requires that Council identifies the significant forecasting assumptions (assumptions) and risks underlying the financial estimates in its Long Term Plan. Where there is a high level of uncertainty surrounding the assumptions, Council is required to state the reason for that level of uncertainty and provide an estimate of the potential effects of the uncertainty on the financial estimates provided.

Council has made a number of assumptions in preparing this 2021-2031 Long Term Plan. These assumptions are necessary as the planning term covers 10 years and the assumptions ensure that all estimates and forecasts are made on the same basis.

The prospective financial information contained in this 2021-2031 Long Term Plan is underpinned by the assumptions that the Council reasonably expected to occur as at 30 June 2021. The assumptions are made on the basis that there is an average of 21,150 ratepayers in the district.

Actual results are likely to vary from the information presented and these variations may be material. This financial information should not be used for any other purpose.

# Assumptions

| Forecasting assumptions | Risk | Level of uncertainty | Financial materiality | Reasons and financial effect of uncertainty |
|---|---|---|---|---|
| **Population growth** – The population of the district is expected to rise to 51,200 by 2031 and approximately 55,500 by 2050.<br><br>Dwelling growth is predicted to be between 130 and 140 new dwellings per year.<br><br>During the 30-year planning timeframe for the Infrastructure Strategy household sizes are predicted to drop from 2.3 to 2.2. | That population growth is lower than projected. | Medium | Low | Population growth can be affected by a number of factors, including net migration, births, deaths and the trend for people to live in smaller family groupings.<br><br>Revenue from rates growth and development contributions may not be accurately forecast and costs of new infrastructure could fall onto existing ratepayers.<br><br>A decline in population could result in a reduction in the number of rateable properties and affect our ability to set rates at a level that is affordable to the community. |
| | That population growth is higher than projected. | Medium | Medium | Significantly higher population growth could require the extension of infrastructure into increasingly difficult and costly subdivisions, with cost increases being funded out of debt.<br><br>Planned infrastructure works and associated costs may need to be brought forward. |
| **Resource consents** – Conditions of resource consents held by Council will not be altered significantly. | Work is not performed in accordance with the conditions of the consent. | Medium<br><br><br>Low | Medium<br><br><br>Medium | Breaches of resource consent conditions may result in increased costs and/or legal action taken against Council; however, the specific extent of any breaches or legal actions cannot be accurately quantified prior to their occurrence. |

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| | Conditions of Council held resource consents are reviewed and altered. | | | |
| **Inflation** – The financial information is based on the following adjustments for inflation. Council has used the BERL forecasts of price level changes to calculate a weighted average inflation rate for each year of the plan. Where expenditure is subject to inflation, the following rates have been applied:<br>2021/22 0%<br>2022/23 2.9%<br>2023/24 2.5%<br>2024/25 2.5%<br>2025/26 2.6%<br>2026/27 2.5%<br>2027/28 2.6%<br>2028/29 2.7%<br>2029/30 2.7%<br>2030/31 2.6% | That actual inflation will be significantly different from the assumed inflation. | Low<br>(Years 1-3)<br>Medium<br>(Years 4-10) | Low<br>(Years 1-3)<br>Medium<br>(Years 4-10) | Inflation is affected by external economic factors.<br><br>Council's costs and the income required to fund those costs will increase by Council's average rate of inflation.<br><br>While individual cost indices will at times vary from what has been included in this plan, the Council has relied on the Reserve Bank use of monetary controls to keep inflation within the 1 to 3% range.<br><br>Where the actual inflation differs from the assumed inflation the cost of the activity will differ. Lower inflation may result in Council reducing the funding. Higher inflation may increase the funding. |
| **Interest** – Interest paid on term debt is calculated at an average rate of 3.8% for year 1 and 3.3% per annum thereafter. | That interest rates will change from those used in the calculations over the | Medium | Medium | Interest rates on borrowed funds are largely influenced by factors external to the New Zealand economy. |

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| | period of the Long Term Plan. | | | Council mitigates interest rate uncertainty through the use of interest rate swaps and other derivatives.<br><br>Based on Council projected debt levels, interest costs will increase or decrease annually by $1.2M -1.4M per year for every 1% movement in interest rates. A significant change in interest rates could affect the amount of funds available to Council. |
| **Interest rate risk management**<br>Council continues to manage interest rate risk with a neutral effect by effectively fixing a large portion of its debt portfolio. | Interest rates move in a downward direction with Council unable to take full advantage of this movement. | Medium | Low | As Council's policy is to effectively fix its interest rate on a large portion of its debt portfolio, a movement in interest rates would have a minimal impact in interest costs or savings. |
| **Raising debt**<br>Council can raise debt at any time. | That Council cannot raise debt as and when required. | Medium | Medium | Council funds debt from bank credit lines and from issuing local authority stock, either through private placement or through the New Zealand Local Government Funding Agency. Market conditions may impact on lenders' ability to continue to fund Council debt.<br><br>New Zealand local authority stock market is dominated by a small number of significant purchasers. Overseas markets are prone to fluctuations in demand for investment in a given Country's securities. Market conditions may result in purchasers of local authority stock |

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| | | | | withdrawing from the market for a period. This means that in the short term Council may have to use cash reserves or investments in place of debt. In the medium term Council may have to delay/suspend current projects. In the long term additional funding sources would have to be found or the Council budget would have to be reduced to what could be funded from current revenues.<br><br>The effect on projects would depend on the value involved and the extent to which Council could not fund from internal sources. |
| **New Zealand Transport Agency (NZTA)** requirements and specifications for the grant of subsidised work will not alter, and that all work in the submitted programme to NZTA will be approved.<br><br>The NZTA subsidy rate Council has used in the Long Term Plan is 61% in year 1 and 60% from year 2 onward. | Changes in subsidy rate and in criteria for inclusion in subsidised works programme.<br>Not all work in the programme submitted to NZTA will be approved resulting in that work not proceeding. | Medium | Medium | NZTA funding priorities may change as a result of the Land Transport Management Act 2003 and its focus on delivering the key outcomes of integration, safety, sustainability and value for money. Variations in subsidy are possible through implementation of the New Zealand Transport Strategy and Government Policy Statement on NZTA funding.<br><br>A 1% decrease in subsidy will increase Council's cost annually by $238,000 on average over 10 years or $11.25 per ratepayer based on 21,150 ratepayers. Alternatively there may be a reduction in service. |

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| **Whanganui District Council Holdings Limited dividends**<br><br>Council is forecasting to receive $500k in years 1-2 and $1M for each year thereafter. | That Council will not achieve the forecast rates of return. | High | Medium | We have forecast reduced investment income in year 1 and 2 of our plan due to the impacts on COVID-19 on our Holding Company's investments. There is substantial uncertainty around the impacts of COVID-19 into the future. |
| **Funding sources**<br>Council has assumed it will receive certain levels of user charges and grants in addition to loan funding as sources of funds for significant assets (e.g. the velodrome roof). | Projected revenue from user charges and external financial assistance is not achieved.<br><br>Levels and sources of funding differ from those forecast.<br><br>The external funding level assumed for the velodrome ($11M) is unable to be achieved.<br><br>The external funding level assumed for the Davis library extension ($920k) is unable to be achieved. | Medium<br><br><br><br><br><br><br><br>Medium<br><br><br><br><br>Low | High<br><br><br><br><br><br><br><br>Medium<br><br><br><br><br>Low | A significant impact from changes in funding or funding sources may result in a revised capital work programme, or changes in the level of user fees and charges, borrowing or rating requirements.<br><br>Council has secured loan facilities in addition to a strong credit rating from an international credit rating agency. It is unlikely that it will be unable to source loan funding for future replacement of significant assets.<br><br>User charges and grants have generally been increased by the assumed rate of inflation over the 10 year period of the plan. Some price increases may affect the demand for services and adversely impact on Council forecast user charge income.<br><br>Council will not proceed with the construction of the velodrome until external funding of $11M is |

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| | | | | confirmed. If this is unable to be achieved, proceeding with the project will be reconsidered.<br><br>Council will reconsider proceeding with the construction of the Davis Library if external funding of $920k is unable to be achieved. |
| **Asset life**<br>Assets do not necessarily fail at the end of their design life. An asset is considered to have failed if its performance does not meet expected serviceability requirements. | Earlier than planned asset failure. | Low | Medium/High | Assets are assessed on their criticality and likelihood of failure and risk ratings are established to prioritise and optimise investment programs.<br><br>Capital replacements may need to be brought forward in the event of asset failure affecting interest costs and levels of debt. |
| **Asset data knowledge**<br>Council has an accurate record of assets to enable good decision making. | Incorrect asset data resulting in incorrect expenditure and loss of service potential. | Low/Medium | Medium/High | Over the past few years Council has been undertaking extensive modelling of its infrastructure networks to improve data information on the condition of its assets. However, where data information remains incomplete, or is inaccurate, there is potential for over-investment or under-investment in assets. |
| **Timing of capital projects and accuracy of cost estimates**<br><br>That capital projects will be completed within the projected | Capital projects are delayed or take longer to complete than estimated. | Medium<br><br><br>Medium | Medium<br><br><br>Medium | Delay in completing projects could result in an escalation of costs in addition to Council not being able to deliver required levels of services. |

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| timeframes and budget cost estimates. | Actual capital project costs are significantly under or over budget. | | | Significant variances of actual capital costs to budgeted capital costs may result in either:<br>• Over-collecting revenue from various sources, such as development contributions, fees and rates; or.<br>• Funding shortfall, placing additional pressure on Council resources, such as borrowings and rates. |
| **Revaluation of non-current assets**<br>From time to time we revalue our assets to understand how much they are worth. Through our planning, we make assumptions about how much we think the assets will be worth when they are revalued. Council has used the BERL forecasts of price level change adjustors for each year of the plan. The following rates have been applied to the appropriate asset types:<br><br>**Year applied** **Water**<br>2022/23 5.5%<br>2025/26 8.4%<br>2028/29 9.6% | Price level changes may not be in line with BERL forecasts resulting in a big difference between how much we thought the asset would be worth and how much it is actually worth. | Medium | Low | Revaluations are impacted by information available on asset conditions. As better information on asset condition is obtained revaluations may differ from those calculated in this Plan. |

# Assumptions

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| **Year applied** **Buildings**<br>2023/24 9.4%<br>2026/27 7.8%<br>2029/30 8.2%<br><br>**Year applied** **Roading**<br>2022/23 7.4%<br>2025/26 9.1%<br>2028/29 9.0%<br>**Year applied** **Investment properties**<br>2021/22 3.7%<br>2022/23 2.9%<br>2023/24 2.5%<br>2024/25 2.5%<br>2025/26 2.6%<br>2026/27 2.5%<br>2027/28 2.6%<br>2028/29 2.7%<br>2029/30 2.7%<br>2030/31 2.6% | | | | |
| **Depreciation on planned asset acquisitions** – Asset condition is as per Council's detailed asset register with the following average depreciation rates being | Actual wear and tear of assets will not mirror current depreciation rates. | Low | Low | Council has an asset management planning and improvement programme in place. Asset capacity and condition is monitored, with replacement works being planned in accordance with standard asset management and |

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| used for planned asset acquisition:<br><br>Infrastructure<br>Roading network 4.1%<br>Wastewater system 1.9%<br>Stormwater system 1.4%<br>Water system 2.2%<br>Airport runway 10%<br>Buildings & improvements 2%-20%<br>Other fixed assets 10%-33% | | | | professional practices. Depreciation is calculated in accordance with normal accounting and asset management practices. |
| **Changes in society** – Based on the projected demographic profile of the district this plan assumes:<br>• an aging population,<br>• an increase in ethnic diversity, although at a lower rate than the rest of New Zealand,<br>• an increase in the Maori population,<br>• the district's ethnic make-up will remain predominantly European and Maori. | The expected demographic changes do not transpire in the predicted areas, impacting on the provision of services for the area and the district as a whole. | Low | Low | The district's projected demographic profile was taken into account in preparing the asset management plans, service plans and activity plans. A significant change in the projected profile could impact on the provision of age specific service delivery and infrastructure, which may become obsolete or underutilised sooner than anticipated. |
| **Potential climate change impacts** | Planning has not adequately accounted for | Medium | Medium | Accretion, sedimentation of the river, greater flooding, impacts on coastal environment and settlements, increased stormwater flooding, |

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| Whanganui expects:<br>• Average temperatures to rise by **0.8 C** between 1986-2005 and 2031-2050 with some seasonal variations; and by **1.8 C** between 1986-2005 and 2081-2100.<br>• Wetter conditions with annual precipitation up **1%** between 1986-2005 and 2031-2050 and winter rainfall up **6%**; and by **4%** between 1986-2005 and 2081-2100 and winter rainfall up **11%**.<br>• Sea Level Rise of **0.2m-0.4m** by 2060 and **0.3m-1.0m** rise by 2100.<br>• This will increase the **frequency** and **magnitude** of storm-related coastal flooding and erosion.<br>. | climate change impacts and the associated cost. | | | higher river levels, increased groundwater levels and hill side erosion and impact on resources to manage events. Infrastructure damage may affect the levels of maintenance in any one year or replacement timeframes may be varied as a result. |
| **Carbon credits**<br>That Council will not receive any carbon credits or pay any charges | Government changes to Emissions Trading Scheme rules. | Medium/High | Low | The previous Government reviewed the Emissions Trading Scheme providing uncertainty over its future, applicability and effect on Council. There are two main services that potentially |

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|---|---|---|---|---|
| through the Emissions Trading Scheme. | | | | trigger Emissions Trading – landfill gases and forestry. Council's old landfill has insufficient gas emission to be of concern whilst Council's forestry holding potentially triggers carbon credits or charges for Council. The quantum and eventuality of any credits or charges is dependent on any changes to the scheme implemented by the current Government. |
| **Shared services**<br>Council partners with other agencies to deliver services in a cost effective manner. | Partnerships do not deliver the desired outcomes.<br><br>The desired outcomes are delivered at an increased cost. | Low<br><br>Low | Low<br><br>Medium | External factors may impact on provider's ability to deliver services at the expected level.<br><br>There are existing agreements between Council and other agencies for the delivery of services. Non delivery could result in an increased cost to Council or an unexpected drop in service levels. |
| **Central government**<br>Council is unable to confidently predict any Government statutory or policy changes. Therefore this plan assumes Council is operating under the current regime of statutory and policy provision. | There are unexpected changes that alter the services provided by Council.<br><br>Changes in Central Government Policy occur and place additional compliance requirements on councils and communities to comply. | Medium/High | Medium/High | Could have significant financial impact on resources to meet legislative requirements and require changes to service delivery/organisational form.<br><br>Council's response to legislative changes would be consulted upon during future annual and long term planning. |
| **Three waters reform** | The shift to regionalised water service provision | High | High | Levels of uncertainty exist due to the discussions still to occur between multiple agencies |

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| This plan assumes Council continues to provide three water services to the community for the full period of the plan.<br><br>The Government is looking into reforming three waters services (water, wastewater and stormwater) across the country into a small number of multi-regional entities who may take over the running of some or all of our water networks.<br><br>At this stage we have agreed to work with the Government to share information. A fully developed reform proposal is not yet available to bring to the community for the Long-Term Plan 2021-2031.<br>We expect the government to ask local authorities to participate in the new delivery system in late 2021 and the government has signalled that councils can opt out. If we opt in, we would no longer be responsible for the delivery of the three waters | arrangements has the potential to be significant in scale, impact core role and functions of the Council and our finances.<br><br>Uncertainty remains until multi-agency discussions have progressed. | | | determining the scale of change and level of impact.<br><br>The potential financial impacts of the transfer of the three waters to a multi-regional water service delivery entity are:<br>• Loss of annual operating revenues of $25M<br>• Loss of annual direct operating costs of $12M<br>• Annual overheads to be reallocated of $2M<br>• Value of assets transferred of $420M<br>• Value of debt transferred of $75M |

# Assumptions

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| services and this would impact on our finances. | | | | |
| **Water Services Regulator**<br>Council is yet to fully understand the impacts and outcomes for Whanganui following the introduction of new water services regulator Taumati Arowai.<br><br>Expectation is that an increasing level of service will be required for water services. Scale and timing of service level change is yet to be determined.<br><br>This plan assumes Council is operating under the current regime for three waters service provision to the community for the full period of the plan. | There is a greater level of service expected to be provided by Council from years 3-5 onwards. | Medium | Medium | Any Government changes to legislation result in appropriate Council response during future annual and long term planning.<br><br>Levels of uncertainty remains until implementation at central government has progressed further. |
| **Earthquake strengthening of buildings**<br>It is assumed a budget of $7.2M over this Long Term Plan will be sufficient for planned work on Council-owned buildings. | That the costs of earthquake strengthening Council-owned buildings within the next 10 years will exceed the $7.2M to be raised and that the costs cannot be funded out of normal budgetary provisions. | Medium | Medium | Council continues to review the seismic strength of our buildings, with a program of works scheduled on a priority basis. As we obtain a better understanding of the physical seismic work required for each building we are able to place a greater level of confidence on the budget allocations. For the first few years of our Long Term Plan we are able to place a reasonable level of confidence on our estimated seismic costs, |

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| | | | | with less accuracy able to apply to buildings scheduled to be upgraded in later years. |
| **Insurance**<br>It is assumed Council's assets are adequately covered for loss. | That the insurance market continues to suffer as a result of recent natural disaster events and that the cost of insurance continues to rise. | Medium | Low | The effect of the Christchurch earthquake has seen substantial cost increases for insurance and issues with obtaining cover at all. Council continues to get insurance for significant assets, and will continue to self-insure lower value assets. |
| **COVID-19 Pandemic**<br>It is assumed that there will be ongoing resurgences of the COVID-19 virus in New Zealand communities and changes in Alert Levels until a vaccine is developed and rolled out from late 2020 and potentially beyond. The repercussions will adversely impact the local and national economy over the next 5-8 years and households will have constrained budgets.<br>This plan assumes no further extended periods of nationwide lockdown. | That the impacts on Whanganui community economy and unemployment are greater than anticipated and that impacts are longer term. | High | High | An event of this nature has not been experienced in recent history and therefore there is a great level of uncertainty. Although the economic impact in Whanganui may not be as great as in other parts of the country to date, there will be a contracting of the economy and higher unemployment. Government assistance is likely to continue to be made available but the impacts on communities are likely to be more severe each time Alert Levels are escalated. |
| **Natural hazard events**<br>There will be natural hazard events e.g. flooding, landslides, severe winds that cause localised | There are natural hazard events more often than expected risk assessments. | Medium | High | Although Council has faced natural disaster events in the past, and coped adequately, climate change predictions are that some events could become more frequent and more intense. The |

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| damage about every 3-5 years which will be funded from a combination of debt, rates and insurance. | | | | potential effect of a natural disaster on Council's financial position is dependent upon the scale, duration and location of the event. Central government assistance and insurance contracts would reduce some of the Council's financial risk. Emergency Management plans and legislation allow for Government assistance where communities are unable to cope with the emergency relief and recovery works. |
| **Earthquakes**<br>The risk of a significant earthquake in the period of this Long Term Plan that causes damage to Council assets is considered low. However, the risk within the next 20 years is considered moderate to high. | A significant earthquake strikes that causes major damage to Council and community assets. | Low | High | Although the likelihood of Whanganui experiencing a significant earthquake that causes major damage is low, recent earthquakes in Christchurch and Kaikoura have highlighted the extent of damage that can occur. As with all natural hazard events Emergency Management plans and legislation allow for Government assistance where communities are unable to cope with the emergency relief and recovery works.<br><br>Emerging research is focussing on the increased risk of a very large regional earthquake off the coast of the lower North Island, as well as the overdue Alpine Fault event. |
| **Development contributions**<br>Growth will occur at the projected rate and in the projected order. | Development contributions are not recovered to match expenditure of network upgrades. | Medium | Medium | Council has undertaken careful planning of growth demand projects so that expenditure and recovery match predicted market demand. |

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| | | | | However if growth projections are inaccurate budgets may be insufficient or inappropriate for the level of actual growth, or sufficient development contributions revenue may not be gathered, leaving ratepayers to fund the deficit in the interim. |
| **Port**<br>The plan assumes that the Council will have transferred its port related assets and operations, including the Harbour Endowment land portfolio, to Whanganui Port Limited Partnership by 1 July 2021, in exchange for units in the partnership. | That the final port revitalisation project does not receive the required Government approval and therefore funding is declined. | Low/Medium | Low | If the final port revitalisation project is not approved by the Government, the port and Harbour Endowment assets and operations will remain with Council. The overall financial impact on rates would be nil, however the project would either not go ahead, or be considerably reduced in scope without the $12.2M of Government funding. |